

DATE

**TRANSMITTAL SLIP**

18 July 85

**TO:**

NIO/S&T

**ROOM NO.**

**BUILDING**

**REMARKS:**

**FROM:**

VC/NIC

**ROOM NO.**

**BUILDING**

**EXTENSION**

**FORM NO.**  
**1 FEB 55 241**

**REPLACES FORM 36-8**  
**WHICH MAY BE USED.**

(47)

Wednesday July 17 1985

# The aims of Eureka

EUREKA, the French initiative to encourage European industry to pep up its high technology, has already achieved one important objective: ministers from western European countries who will consider the scheme in Paris today and tomorrow, know that Eureka has given a new urgency to the public discussion of European technological failings. A political momentum has been created, which—provided that it is channelled in the right directions—could be beneficial for European industry.

Since the French sprang the Eureka concept upon the world in April it has undergone a welcome mutation. What to sceptical British and German eyes looked like a plan to create an international agency, a civilian version of the U.S. defence department, to hand out money to industry has begun to look a good deal more market orientated, even though the mechanics are by no means clear. It would be helpful if the Paris meeting could begin to define these good intentions in practical terms.

What distinguishes Eureka from some other Collaborative European ventures into high technologies, such as Esprit or the Cern nuclear fusion laboratory, is that it is focused on the development and eventually the manufacture of marketable products. Behind this there lies the perception that the Europeans have held their own in research, but have often failed to turn the results into successfully marketed products. That diagnosis is well founded, but the cure will not be achieved by throwing money at the problem.

## Resources

Available statistics do not bear out the belief that the Europeans are not devoting sufficient resources to research and development. According to Mr Henry Ergas of the OECD, speaking at a recent Financial Times conference, the EEC countries spend only slightly less than the U.S. and considerably more than Japan on research and development in high-technology industries. Moreover government subsidies to high-technology R and D in the EEC are about level with those in the U.S. and surpass those in Japan by a factor of ten.

The problem is that the re-

turn on the investment in R and D, in terms of increased share of world trade in high technology products, is inadequate. Is this because there is too much duplication? This seems to be the thinking behind the Esprit programme of pre-competitive research and behind Eureka. The idea is that by pooling effort and resources the Europeans could achieve their objective—internationally competitive high-technology products—more swiftly and more cheaply. Yet there is a danger that too much priority is being attached to collaboration, just as in the past there was too much emphasis on large-scale mergers as the route to competitiveness.

It would be very desirable if the inhibitions and practical obstacles which discourage joint ventures between European high-technology companies were reduced; this could be a useful consequence of Eureka. But lack of collaboration across frontiers does not explain Europe's technological weakness.

Mr Ergas argued in his speech that the innovative performance of a country or region depended on three factors: the strength of domestic and accessible export demand for innovative products; the adequacy of the technical infrastructure, in terms of the supply of scientists and engineers; and the responsiveness of industry to the opportunities arising from demand on the one hand and from new technologies on the other. This last factor is crucially affected by the strength of the competition to which high-technology companies are exposed.

The first and last of these points relate very directly to the biggest single problem facing Europe's high-technology industries—the fragmentation of the European market. The British Government would like to use Eureka as one of the levers with which to open up the internal market for high technology products. It is, of course, much more than that in the eyes of its principal proponents and it would be most unwise to ignore the political dimension. But as ministers start to translate the Eureka idea into practical reality, they need to keep very clearly in mind the true nature of Europe's high-technology problem.